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SUBJECT: SCENESETTER FOR SPEAKER PELOSI'S VISIT TO CHINA

(U) Sensitive but unclassified. Please handle accordingly.

¶1. (SBU) Madame Speaker, your visit to China comes at a significant time. 2009 marks a series of key anniversaries: January 1 commemorated 30 years of diplomatic relations between our two countries; March saw the 50th anniversary of the 1959 Tibetan uprising and the Dalai Lama's flight to India; October 1 will mark the 60th anniversary of the founding of the PRC; and June 4, one week after your visit, will mark the 20th anniversary of the Tiananmen Square massacre.

¶2. (SBU) Given your longstanding advocacy for human rights in China, the Chinese leaders, while welcoming your visit, are anxious. Your interlocutors will listen intently to points on human rights and the security services will be on high alert. The Chinese people have been taught to question the motives of U.S. leaders who criticize their regime, and you may face some skeptics in official and informal meetings -- individuals who may project a negative agenda, even as you engage positively. Despite these challenges, your visit provides a special opportunity to show the Chinese leaders that we seek a mature relationship with China -- a relationship where our leaders can talk frankly about issues where we disagree such as human rights, religious freedom, Tibet and Xinjiang, while also engaging on vital issues of mutual concern like climate change, the global economic situation and regional security.

#### Bilateral Relations

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¶3. (SBU) We are working to build an increasingly positive, cooperative and comprehensive bilateral relationship with China. The Chinese appreciated that Secretary Clinton included China in her first visit abroad as Secretary of State, and will be very pleased by your early visit as well. President Obama had a successful first meeting with President Hu Jintao in London at the G-20, and the Chinese have invited him to visit later this year. The Chinese place great importance on our bilateral links and are pleased we are committed to enhancing our bilateral economic and strategic dialogue framework to enhance mutual understanding. We are intensifying the seriousness with which we discuss hot-spot issues. Despite the current lull, China's leadership and participation in the Six-Party Talks aimed at creating a denuclearized Korean Peninsula show that we can engage constructively on vexing issues. We continue to push for increased cooperation on Iran, Pakistan, Afghanistan and Sudan. Your interlocutors would benefit from hearing your ideas on this sort of collaboration and your suggestions on how inter-parliamentary exchanges can boost the overall relationship.

#### Response to the Financial Crisis

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¶4. (SBU) China's financial system was relatively insulated from the global financial unrest, and Beijing's response to the economic crisis has, in general, been responsible and helpful. They have continued to buy U.S. Treasury bills and agency (including Fannie Mae and Freddie Mac) debt, and have worked with us in international fora such as the G-20 Leader's meetings to achieve global financial stability. We have urged China to provide additional resources to the IMF and made clear our support for reforming that institution.

15. (SBU) Chinese exports and export-related investment were hard-hit by the global economic downturn. Exports in the first four months of this year are down around 20 percent compared to the same period last year, and foreign investment is flat. What declining exports have taken away, the Chinese government is trying to replace with domestic spending. Beijing has announced a series of stimulus plans, including massive infrastructure, social spending, and monetary initiatives. These programs are bearing fruit, and domestic government and SOE investment has expanded enough to return China to growth.

16. (SBU) We have welcomed Beijing's strong actions to stimulate its economy, but continue to emphasize the importance of long-term sustainability. Although we see green shoots in the United States and Europe, we expect the U.S. savings rate to increase, and American consumers may no longer absorb China's excess production; China needs to start re-orienting its economy toward domestic consumption. We point out that, as we have seen in the United States, high growth of bank lending and lack of transparency in China can be a cause for concern. A more flexible exchange rate is one part of a policy mix that can promote more harmonious balanced growth.

#### China's Concerns -----

17. (SBU) You will likely hear Chinese concerns that future inflation in the United States could erode the value of their dollar-denominated assets ("please protect China's U.S. investments"). Some of their proposals to supplant the dollar with an alternative international reserve currency appear derived from

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these insecurities. You may wish to remind your interlocutors that the majority of Treasuries are held by Americans (China holds only about 7% of outstanding USG debt and 14% of publically held debt), and make a strong statement indicating our intention to fight inflation so that it does not erode our own citizens' assets -- such a statement would help promote understanding of the situation. Beijing interlocutors would also be interested in hearing the Congressional position on future budget deficits and the future restructuring of Fannie Mae and Freddie Mac.

#### Our Concerns -----

18. (SBU) The majority of U.S. businesses operating here remain profitable, especially those that are selling into the Chinese domestic market. However, despite China's frequent calls to ban "protectionism" and their claims that they have no "Buy Chinese" policy in their stimulus package, U.S. businesses say that the Chinese government puts severe restrictions on U.S. companies' ability to compete successfully for stimulus-related contracts. These biases have exacerbated pre-crisis favoritism for domestic firms through use of unique national standards, requirements to force firms into joint ventures with Chinese partners, slower licensing for foreign firms, and the drafting of selective contract specifications to favor domestic firms. It is valuable to emphasize the reality of the "Buy American" requirements in the U.S. stimulus, including their limited scope.

#### Labor Issues -----

19. (SBU) With the fallout from the global economic crisis, rising unemployment is a serious concern. Migrant workers and recent college graduates are particularly affected by the downturn, and failures at export-oriented firms have led to protests in coastal provinces. Inland provinces that are the traditional sources of China's estimated 225 million migrant laborers are also being impacted. Labor disputes have been on the increase for several years, but the recent surge in formally filed cases may be due to workers' awareness of the protections offered by the new Labor Contract Law, which was enacted in January 2008. The risk of broader social disruption will depend on the extent of a global

downturn as well as the central and provincial governments' response to it.

#### China: A Growing Energy Consumer

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¶10. (SBU) No issue is likely to occupy the next generation more than energy security. In less than a generation, China has become an influential player in international energy markets and is currently the world's fastest-growing energy consumer. In 1990, China's energy use accounted for 8% of global primary energy consumption. This grew to 17% by 2007 and it is expected to rise to nearly 21% by ¶2030. Access to adequate energy supplies is a high priority for China. Oil accounts for about 20% of China's current energy mix. China became a net importer of oil in 1993 and it now relies on imports to meet about 50% of its fossil fuel needs. It is projected that China will need to import some 60% of its oil and at least 30 percent of its natural gas by 2020. To strengthen the country's energy security, China has adopted a "go-out" policy, which encourages national oil, gas, and minerals companies to acquire equity stakes in foreign extractive industries. Saudi Arabia, Angola, Iran, Oman, and Russia are China's largest oil suppliers; China has also made deals in riskier locations such as Sudan, Burma and Iraq to cope with growing demand.

#### Coal Dominates the Energy Mix

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¶11. (SBU) Coal remains China's primary source of energy, accounting for 70% of its energy mix and fueling 80% of China's electricity production. Dependence on coal has come at a high environmental, economic, and public health cost. By most measurements, more than half of the world's most polluted cities are in China. China's sulfur dioxide, carbon dioxide, and mercury emissions are the highest in the world. According to a recent study by the World Health Organization, diseases caused by outdoor and indoor air pollution in China kill 656,000 Chinese citizens every year. The World Bank estimates that economic losses due to pollution total between 3 and 7 percent of GDP annually.

#### Climate Change and China

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¶12. (SBU) China surpassed the United States last year as the world's largest annual emitter of greenhouse gases (GHGs). The United States is seeking to establish a new level of cooperation on climate change with China. During Secretary Clinton's February visit, China agreed to establish a partnership on energy/climate change and also agreed that the U.S. and China should work together for the success

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of the UNFCCC climate change meeting in Copenhagen. Because China and the United States together represent 40% of world emissions, no post-Kyoto climate change framework will be meaningful without China. Although the U.S.-China Ten Year Framework (TYF) on Energy and Environmental Cooperation established in June 2008 does not specifically address climate change concerns, the Framework and its action plans will support this new partnership.

#### China's Current Position on Climate Change

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¶13. (SBU) Although China is now the world's largest emitter of GHGs, it has not directly acknowledged this fact. You can expect your interlocutors to point out that historically and on a per capita basis, China's emissions are only a fraction of those of the developed countries. China is devoted to the UNFCCC principle of "common but differentiated responsibilities." To China, as a "developing country," this means it is the responsibility of the developed countries to deal with cumulative historical emissions and it is unfair to expect developing countries to take on these same targets. China also adheres to the UNFCCC principle that the developed countries have an obligation to provide technology and financing to developing countries to address their energy needs. Although China does not have national emissions targets, it does

have a target for reducing energy intensity by 20% by 2010, and it has a goal of reaching a 16% renewable energy share by 2020. Despite China's declared solidarity with the developing countries, it is also acutely aware of its vulnerability to the effects of climate change, including increasing rates of glacial melt and desertification, rising sea levels, and extreme weather events.

#### Opportunities for the U.S.

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¶14. (SBU) China's 11th Five-year Plan calls for a 20% improvement in energy efficiency between 2005 and 2010 (3.7 percent at an annualized rate). This goal coincides with U.S. interests in maintaining energy security and developing opportunities for U.S. companies in the Chinese market. U.S. firms are just beginning to tap into opportunities in China to introduce energy efficiency, pollution control, and clean coal technologies. China is a particularly attractive market because of its significant efforts to adopt clean energy technology even while its economy is becoming more industrialized. China will invest USD 175 billion in environmental protection in the next five years, according to the U.S. Commerce Department. U.S. companies are very competitive in a range of clean energy technologies, including renewable energy, power generation, gasification, energy efficiency, nuclear, and others. Clean energy projects draw on the rich resources of both U.S. and Chinese ingenuity and lead to jobs in both countries. Westinghouse, for example, estimates that several thousand U.S.-based jobs are retained every time China orders another nuclear reactor from them.

#### Human Rights

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¶15. (SBU) Your counterparts will likely remind you that the PRC government likes to define human rights broadly to include factors affecting economic and social well-being, pointing out that China's "reform and opening" policies of the past 30 years have coincided with gradual improvements in the quality of life enjoyed by hundreds of millions of Chinese. They further argue that our focus on individual rights and liberties reflects Western values. We respond to this self-serving argument by noting that human rights are universal values, as the Chinese themselves acknowledged when they signed the Universal Declaration of Human Rights. Although freedoms for Chinese citizens have expanded over the past three decades (what some observers have called a bigger "cage"), the overall human rights situation in China remains poor in many respects. We continue to emphasize that the expansion of individual freedoms, respect for the rule of law and the establishment of a truly free and independent judiciary and press are in China's own interests, and would enable the PRC to deal with social tensions and achieve its goal of building a "harmonious society."

¶16. (SBU) House leaders from both political parties have helpfully faced the human rights situation in China head on. The late Representative Tom Lantos was a regular visitor to China who gracefully evinced respect for China's long history and rich culture while at the same time reminding Chinese leaders that China could not truly reach its full potential until it also reached international human rights norms. Representatives Chris Smith and Frank Wolf have repeatedly emphasized to the Chinese that religious freedom is a basic human need and that religious adherents make good citizens. Hill leaders have worked with U.S. experts and law schools to promote the rule of law in China.

¶17. (SBU) Your words and deeds while visiting the PRC will further advance this cause. By attending worship services, you can give

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heart to religious believers in China. By giving an address at a public forum, you can advance issues of importance ranging from the need to promote civil society by allowing NGOs to form more freely, the need to respect minority cultures, or the vital importance of an independent judiciary and a functioning criminal defense bar. A web chat would connect you to the largest on-line community on earth, China's 300 million Internet users. The web chat system is not perfect, but it is a step in the right direction. While your topic

might be on the environment, we think the participation will also demonstrate how government leaders should be held accountable.

¶18. (SBU) We also stand ready to help your staff gather information about individual prisoners of concern. We are convinced that by raising such cases in private meetings with Chinese leaders, you will help to improve the plight of prisoners of conscience.

Taiwan  
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¶19. (SBU) Your interlocutors will probably subject you to lengthy discourses on Taiwan and offer warnings on the serious consequences should the United States continue to sell arms to Taiwan. You may choose to respond by emphasizing our obligations under the Taiwan Relations Act to consider Taiwan's legitimate defense needs and that we believe our sales of defense articles to Taiwan have been conducive to cross-Strait peace and stability. We suggest you welcome the improvements in cross-Strait ties pushed by PRC President Hu and positively embraced by Taiwan President Ma Ying-jeou since his inauguration in 2008. You can encourage Beijing to maintain the positive momentum by accommodating Taiwan's meaningful participation in international organizations such as observership at the World Health Assembly (now a reality), by reducing military deployments aimed at Taiwan, and continuing to make progress on cross-Strait economic and cultural ties.

Military-to-Military Relations  
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¶20. (SBU) Military-to-military relations lag behind most other aspects of the bilateral relationship. Military exchanges were suspended by the Chinese last October after DOD notified Congress of pending arms sales to Taiwan. Although exchanges have resumed, they will be limited until Defense Consultative Talks are held in late June. You may wish to emphasize the importance of our two militaries improving relations and point to a number of opportunities for cooperation. The PLA Navy's recent deployment to combat piracy off the Horn of Africa is but one opportunity for closer cooperation. You may also want to stress that recent harassment by Chinese Navy, Coast Guard and fishing vessels against unarmed U.S. Naval vessels (i.e. USNS IMPECCABLE) conducting routine surveillance operations in international waters undermine mutual trust and risk unforeseen calamities that could negatively impact our relationship.

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